C.D. Howe Institute
Institut C.D. Howe

THE HOWE REPORT

The President's Digest

by William B.P. Robson

Staying On the Case:

Since taking up the helm at the C.D. Howe Institute this summer, two themes have been prominent in my mind. One, naturally, centres on Canada's policy challenges and the Institute's role in finding and promoting ways to improve the country's economic prospects. A second is the unique interaction with members that the President of the Institute enjoys — the conversations I have had with many of you already, and the conversations I look forward to as our roundtable series gets under way and I travel across the country this fall.

Those two themes — Canada's challenges and discussions about how the country could do better — sometimes intersect in frustration. Whether the topic is lower, more growth-friendly taxes, better-controlled public spending, lighter, smarter regulation, responses to demographic pressure on our pension and health programs, or the myriad other tasks we face as a country, people often say: "We know there's a problem, and we know we have to deal with it. But nobody at the political level is listening."

I'm sure that sounds familiar — I confess I've sometimes said it myself. But a transition of leadership at one of Canada's preeminent policy think-tanks offers an opportunity to reflect, not just about today's challenges, but also on what we have faced in the past — and, in the light of that experience, where we might expect to be in 5 or 10 years' time. So I hope you'll excuse a newly minted President reflecting on the remarkable transformation in the Canadian economic scene since he arrived at the Institute as a policy analyst back in 1988. It's a useful perspective that offers hope for the future.

Canada's economic situation in 1988 was fraught, and the political debate surrounding it was scarcely better. The federal government, already in chronic deficit, was on the verge of a rise in borrowing that would shortly prompt talk of a debt crisis. Inflation was mounting, despite an unemployment rate around 8 percent, and the Bank of Canada's efforts to fight it were driving interest rates into double digits — which in turn would drive unemployment into double digits for the second time in less than a decade. Canada and Quebec Pension Plan premiums had just been hiked, yet projections would shortly show the plans running out of money anyway, threatening contemporary kids with a price tag for benefits three times greater than what their parents were paying. The economic and political damage of the National Energy Program was still fresh. And the proposed Canada-US Free Trade Agreement was fueling a venomous debate, animated by fear that lower barriers at the border might overwhelm Canada economically, and perhaps politically as well.

A twenty-something joining a public policy think-tank in the middle of all that might have wondered about his career choice. But along with colleagues such as then-president Maureen Farrow, Ted Carmichael, Dick Lipsey, and Katie Macmillan, I saw how sharp thinking, clear argument, and

continued on page 2

by Finn Poschmann
Director of Research

Repairing EI's Flaws

is no Short-Term Job

Canada's sparkling economic performance, recently fuelled by hot energy and commodities markets, is reflected in superb national labour market numbers. Unemployment hovers around three-decade lows and the portion of the population participating in the labour force pushes historical highs — almost three-quarters of the population in Alberta is in the labour market, a remarkable share.

Of course, mentioning Alberta immediately points up the intense regional flavour of the headline job numbers: in a given month there might be a 12-point gap in unemployment rates between high- and low-unemployment provinces. In turn, that raises a question: did the dispersion in unemployment rates shrink as the overall labour market improved in the last decade? Did the people moving from east to west — of which there have been many — cause the unemployment numbers to become more nearly equal across provinces?

The answer is no, according to Policy Analyst Yvan Guillemette, who recently took a hard look at the numbers (see http://www.cdhowe.org/pdf/ebrief_33.pdf) A halving of the unemployment rate in a strong province was not typically matched, in the past decade, by a halving of unemployment in a weaker province, implying that people are reluctant to leave areas where job prospects are poor. Now, there are very practical reasons why people do not up stakes every time job prospects wax elsewhere: moving involves costs, uncertainties and risk — and imperfect information. Spouses may have jobs and separating from spouse, or spouse from job, involves other costs; and people own houses, typically their most significant asset which they will be reluctant to sell into a weak market.

While acknowledging these crucial human influences, the fact is people do move and must. The world changes. It is government's role to ease difficult transitions, to facilitate adjustment to the economic environment, if possible, and at the very least not to construct impediments to adjustment — the choice is between stagnation and pursuing prosperity.

On this score, we're not doing so well, and the usual suspect, distortions in the Employment Insurance program, correctly remains under investigation. EI offers more weeks of benefits, based on fewer weeks of work, in regions where the unemployment rate is higher.

These benefits are keenly appreciated by unemployed claimants in regions with weak economies. The problem, however, is that many regions have persistently high unemployment on a seasonal basis. The regional disparities I mentioned above peak in the early months of the calendar year, when unemployment is at its highest.

The implication is that the pattern of seasonal work and seasonal unemployment is solidly entrenched. EI's design facilitates it, and some recent policy changes have actively encouraged it, by selectively extending benefit eligibility in certain regions.

The economic wisdom of permitting social program design to entrench weak job market attachment is clearly doubtful. There is a fairness aspect as well — some observers find it unreasonable that a laid-off autoparts worker in Ontario might be eligible for 36 weeks of benefit, while an otherwise identical worker in eastern Nova Scotia is entitled to 45.

What to do about it? Directly redressing the regional tilt within EI has proved politically fraught, and the hard-won reforms of 1996 have in part come undone: David Gray discussed this in a 2004 Backgrounder (http://www.cdhowe.org/pdf/backgrounder_82.pdf), and more on the subject is due from us shortly.

Are there indirect repairs that might prove more durable? We have written about one option: fund noninsurance and regionally extended EI benefits from individual payroll contributions, and fund regular benefits from risk-rated employer premiums that vary depending on the employer's layoff history (see Robson and Poschmann http://www.cdhowe.org/pdf/EI%20Backgrounder.pdf). Assessing employer premiums at the firm or establishment level would sharply diminish the regional sting, because within industries and within regions, a minority of employers is typically responsible for a majority of the layoffs. Employers that use the program to manage their year-round staffing issues should be assessed suitable fees.

Are there other options to explore? Of course. EI is one of Canada's largest social programs and most complex ones. Keeping the program's evolution pointed away from stagnation, and Canada on the path to prosperity, will keep policy analysts engaged for months and years to come. ■

2008-01587/

Staying On the Case: Canadians Are

persistence in making the case for practical steps forward could make a difference. Many individuals, businesspeople, academics, journalists — and policymakers themselves — argued the benefits of fiscal consolidation, advocated lower, stable inflation, suggested routes to social security reform, warned against misguided energy taxation and regulation, and urged Canadians to welcome, rather than fear, liberalized trade. In its publications and in public appearances, the Institute was on the vanguard of these debates, contributing independent and reasoned argument that found an audience at the highest decision-making levels.

During the following decade — while the Institute under Tom Kierans, with such notable contributors as David Laidler, Daniel Schwanen and Irene Ip, kept plugging away at these and other issues — a series of remarkable events occurred. Federal and provincial deficits turned into surpluses. Inflation came down, and has averaged 2 percent, with remarkably little variation, since 1995. The Canada and Quebec Pension Plans became better funded, and should be able to pay promised benefits with contribution rates around 10 percent. Canada's fossil fuel industry thrived, and the country became a massive net exporter. Trade barriers dropped, and productivity and wages rose in the industries affected.

I don't offer this review just to advertise the efforts of the C.D. Howe Institute — though I think we did our share. The key point is that more voices spoke up in favour of energetic corrections. Political leaders stepped forward to do the job. And Canadians responded positively. We began to see progress — first in quarter inches, then in feet, and then in miles.

Under my immediate predecessor, Jack Mintz, the C.D. Howe Institute stayed in the forefront of policy debates. We made the case for more efficient and fairer taxation, for more assertive and realistic foreign policies, for reducing the barriers to people striving for economic self-sufficiency, for better quality education, and for much else. To what effect? In fiscal policy and education, I would say the directions are positive; on foreign policy and removing barriers to economic advancement, the picture is less clear. Whenever I find myself getting discouraged, however, I recall the lesson of the years since I joined the Institute. Canadians do care about these issues. There is an appetite in this country for good research and advice. Well-argued proposals to boost Canada's economic growth and raise quality of life find an audience. And political leaders who will push through those solutions do exist.

Looking ahead, then, I am confident that independent, high-quality research into Canada's challenges, and the framing of relevant approaches to addressing them, will continue to reap rewards. With able colleagues such as the Institute's new Director of Research, Finn Poschmann, a dynamic in-house team of analysts, and fellows-in-residence Marcel Boyer, Duanjie Chen, David Laidler, John Richards, Ken McKenzie, and Jack Mintz, I will push forward on these and other fronts through 2007 and into the Institute's 50th anniversary year in 2008. In the coming months, I look forward to continuing the conversations I have started, to meeting with all of you who support the team at the Institute and hearing your views on the best ways to improve Canadians' prospects. I hope to persuade those of you frustrated with aspects of our present economic and political debates that smart analysis and clear argument can make a difference. We've done it before, and we can do it again.

Looking ahead, then, I am confident that independent, high-quality research into Canada's challenges, and the framing of relevant approaches to addressing them, will continue to reap rewards.

by Duncan Munn
Director of Development
and Public Affairs

Roger Phillips (centre) flanked by then-president Jack Mintz (left), Bill Robson, President and CEO, (back) and Duncan Munn, Director of Development and Public Affairs, (right). Mr. Phillips donated $1,000,000 to the C.D. Howe Institute.

Are registered retirement savings plans good investments? It depends. For low-income Canadians, putting money in an RRSP can be a terrible mistake. Withdrawals at retirement can trigger social-benefit claw backs creating truly oppressive marginal effective tax rates. Policymakers need to do a much better job at encouraging, rather than punishing savers. This was the conclusion of a 2003 Institute publication by Richard Shillington entitled "New Poverty Traps: Means-Testing and Modest-Income Seniors." On the strength of its relevant analysis, the paper, despite being three years old, ranked in the top 20 publications downloaded from the Institute's website over the past year. (For the complete list go to www.cdhowe.org, What's New.)

A clear message from the Top 20 list is the strong interest in social policy research by the Institute. Twelve of the 20 papers related directly to social policy. David Johnson of Wilfred Laurier University was a top draw for his ground-breaking study on student achievement in Ontario, as was UBC's Kevin Milligan for a study on improving the work incentives in Canada's public pension system. Both studies were published by the Institute in 2005. Other top ranking papers include studies on class size and student achievement, mandatory retirement issues and skill development.

To spur policy development in this area, philanthropist Roger Phillips recently provided the C.D. Howe Institute's social policy research program a huge boost. He made a $1,000,000 contribution to create the Roger Phillips Scholar in Social Policy. The added support will allow the Institute to make a sustained commitment to the social policy research field, including possible projects on the movement of people into and out of low income status, as well as on child benefits and marginal effective tax rates.

Of course, other work on economic policy received wide attention. The most downloaded paper in the 12 months ended June 30 was authored by Institute President and CEO Bill Robson. He hit a responsive chord with his 2001 study on aging populations and the workforce, written for the British North American Committee. Five years on, Robson's ideas continue to have salience. To quote Robson, it is "an appropriate time for businesses and other organizations to reflect on their human resource policies, preparing for the more chronic shortages that loom ahead. Hiring and contracting strategies, work scheduling, human capital development, compensation and job assignment practices, business structures, and workplace technologies will all require adaptations for a relatively smaller, older, and more female workforce. Many relevant public policies are out of step with the imperatives of the future, and the long lead times for reform mean that employers need to keep policymakers abreast of the challenges and urge them to timely action." Second and third place, respectively, went to the "2005 Tax Competitiveness Report" by Jack Mintz et al. and "Two Percent Target," a *Donner Prize* winning study on monetary policy by David Laidler and Bill Robson.

In these and many areas, the Institute will continue its efforts to provide Canadians with clear, persuasive, evidence-based policy prescriptions.

The Howe Report Has a New Look

As you may have noticed, The C.D. Howe Institute newsletter, *The Howe Report*, has a new look! We redesigned our newsletter to make it more enticing and easier for you to read.

The Institute is in the process of making improvements to several of its communications materials. We recently redesigned our website and Annual Report.

Our website now offers a new Publications Search tool to help you find the C.D. Howe Institute publications most relevant to your work.